Future Students, Future Revenues
Thriving in a Decade of Demographic Decline

Research Briefing
Searching for a Sustainable Model

Against a backdrop of declining state support for higher education, intensifying competition for students, and the rise of new “disruptive” technologies and business models, discussions about the future of higher education have become both more urgent and more contentious. This brief, based on conversations with over 150 higher education leaders across North America, analyzes the fundamental forces that will shape higher education over the next decade and highlights the strategies and competencies that colleges and universities will need to be successful.
While all universities have worked to find efficiencies and cost savings, no institution can sustain, much less enhance, its commitment to excellence without revenue growth.

Over the past decade, universities were able to grow revenue primarily by growing enrollment and increasing net tuition per student. But demographic and economic changes will make it increasingly difficult for all but a handful of institutions to grow tuition revenue at historic rates. Many will struggle simply to grow net revenue at the rate of inflation.

The traditional population of 18- to 22-year-olds will remain a majority at most institutions, but enrollment growth will come primarily from other student segments. And increasing competition for highly qualified and “full-pay” high schoolers will drive up discount rates, further reducing revenue growth from traditional students.

Populations such as community college transfers, international undergraduates, professional master’s students, and adult degree completers offer the best opportunities to grow enrollment and tuition revenue, but serving them well requires new types of support services, credit transfer policies, institutional partnerships, and program modalities.

Serving these students properly requires significant investments, new organizational models, and cultural change on campus. But it can be done in a financially sustainable way—fulfilling the university’s mission to serve a diverse range of students while providing financial resources to support the core.

Online and hybrid education should be evaluated in terms of their ability to support the needs of specific student segments. Online strategies should flow from student needs, not media hype or a fear of missing out on the latest trend.
Road Map for a Sustainable Enrollment Model
» The Need for **New Growth Strategies**

» Evaluating **Potential Growth Segments**

» Reorganizing to **Support Sustainable Growth**
The Need for New Growth Strategies
Universities are built for growth and have few good mechanisms for dealing with flat or declining revenues. The experience of the recent recession demonstrates that even with the desire “not to waste a crisis,” few institutions were able to make significant and sustained reductions in operating costs. Major consulting engagements revealed a standard set of approaches to reducing administrative overhead. But even with teams of expensive experts and board-level mandates, the most aggressive institutions were rarely able to cut more than 2% to 3% from their operating budgets.

Few institutions took on the much larger costs in the academic enterprise, and those institutions that did make painful cuts to academic programs typically found relatively little near-term savings, given the difficulty of shedding faculty.

All institutions are looking to become more efficient, but deep structural impediments make it impossible to find sustainable year-over-year cost reductions. The easiest way to reduce costs per student is to grow the number of students while holding costs relatively stable. As a result, most institutions have focused more on increasing revenues, typically through enrollment growth and/or price increases.

**Revenue Growth More Achievable Than Cost Reduction**

<table>
<thead>
<tr>
<th>University</th>
<th>Total Savings</th>
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<tbody>
<tr>
<td>University A</td>
<td>2.8%</td>
</tr>
<tr>
<td>University B</td>
<td>2.6%</td>
</tr>
<tr>
<td>University C</td>
<td>2.4%</td>
</tr>
<tr>
<td>University D</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

**Typical Total Savings Reach Only 2%–3% of Operating Budgets**

Expected Savings from Consulting Engagements as Percentage of Total Operating Expenditures
Rising Enrollments and Prices Fueled Growth in the ’00s

Over the past 15 years student enrollment more than doubled, supported by demographic growth and rising college access rates. Institutions of all types grew revenue by adding more students while simultaneously raising prices. Growing household wealth, easy credit, and the expansion of federal financial aid kept rising tuition within reach for most families.

Privates Leveraged Price, Publics Expanded Headcount

Growth in FTE Enrollment and Net Tuition Revenue per FTE, 2002–2010

Public universities tend to have larger enrollments and lower net prices. Their gains came more from growing enrollment with price increases moderated by political pressure to remain affordable. Private colleges and universities sought revenue increases from higher tuition and expanded enrollment cautiously to maintain smaller classes and high-touch services. Institutions of all types were able to grow revenues robustly.

The years of steady tuition revenue growth have now come to an end, however, and over the next decade demographic, financial, political, and competitive pressures will make it harder to maintain historical growth rates.
Public Universities
Increasingly Tuition-Driven

While private colleges and universities have always been dependent on tuition, public universities are now facing similar pressures. State governments have been systematically divesting from higher education and allowing tuition to rise, shifting more of the financial burden onto students.

In the aftermath of every recession, legislatures typically reduce funding for higher education but fail to restore it as the economy improves. This leads to a ratchet effect that drives up the share of instructional revenues from tuition. After the last recession, tuition dependence jumped faster than ever before, and few foresee a return to the old model as the rising costs of health care and pensions crowd out other state priorities.

While public universities are still less dependent on tuition revenue than their private counterparts, tuition revenue now exceeds state funding at most publics, with significant repercussions for enrollment strategies.

An Unprecedented Jump in Tuition Dependence
Tuition as a Percentage of Educational Revenues for Public Universities, 1986–2012

Tuition dependence increases after recessions...

...but fails to return to base levels after recovery

Historic increase in 3 years following recent recession
Colleges and universities operate under a business model that is more dependent than ever on growing or maintaining enrollment and regularly raising tuition rates. Tuition had been the most reliable revenue lever over the past decade, buoyed by demographic growth among 18- to 22-year-olds, steady retention rates, continued pricing power, and moderate increases in financial aid.

The next decade will see a dramatic change across all of these factors, with the number of new high school graduates falling in absolute terms, rapid growth in populations that have historically graduated at lower rates, pressure on family finances, and an increasing amount of revenue devoted to financial aid (both need-based and merit-based).

Reducing costs and boosting philanthropic outreach may soften the blow, but ultimately colleges and universities will need to find a new way to succeed in the face of strong demographic headwinds.

**What Got Us Here Won’t Get Us There**

Revenue “Tailwinds” Can’t Be Relyed On Going Forward

- **Decline in high school graduates**
- **At-risk populations growing in share**
- **Family finances under stress**
- **Merit aid competition escalating**
Enrollment Growth Will Slow Dramatically

Demographic projections suggest that the number of high school graduates will fall over the coming decade, though reasonable improvements in college access should keep higher education enrollment growing—just barely. Enrollment growth averaged almost 3% annually over the past 15 years but will slow dramatically with a projected growth rate of just over 1% from 2011 to 2021. It will become impossible for all institutions to meet their growth targets, and many will struggle even to maintain flat enrollment. Already, over a fifth of institutions reported enrollment shortfalls of 10% or more in 2012.

Enrollments Will Continue to Grow, but at a Slower Rate

Total Fall Enrollment, Title IV-Eligible Institutions, 1996–2021 (projected)
Recruiting Patterns Still Predominantly Regional

The national demographic trends mask significant regional differences. High school graduate populations will fall rapidly in the Northeast and Midwest, while rising rapidly in the South and holding steady in the West.

In response to these trends, many institutions have ramped up out-of-state recruiting, yet the vast majority of students still attend a college or university in their home state. Student mobility has barely grown despite a decade of increasingly nationalized recruiting about. About 23% of all first-years studied out-of-state in 2010, barely changed from 22% in 2000. Individual institutions may increase their out-of-state draw, but it is unlikely that the total number of nationally mobile students will increase significantly.

Location Matters, Still
But Some Regions Will Face Significant Demographic Headwinds

Net Change in High School Graduates, 2012–2022
Riskier Students Put Pressure on Completion Rates

In addition to regional differences, demographic projections show significant changes in the racial and ethnic mix of American students. White students, with higher average rates of college success, will see the steepest declines, while Hispanic students, who still significantly underperform white students on average, will continue to grow dramatically.

If universities are not able to reduce historic performance gaps, basic demographic trends (as well as policies intended to increase access to underrepresented groups) will pull completion rates down.

Shifting Student Mix
Demographics Will Require Greater Investment in Student Success

Projected Net Growth in High School Graduates by Race, 2011–12 to 2021–22

<table>
<thead>
<tr>
<th>Race</th>
<th>2011–12</th>
<th>2021–22</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>139K</td>
<td></td>
</tr>
<tr>
<td>Black</td>
<td></td>
<td>53K</td>
</tr>
<tr>
<td>Asian</td>
<td>60K</td>
<td></td>
</tr>
<tr>
<td>Hispanic</td>
<td>154K</td>
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</table>

Distinct Challenges Facing Hispanic Students Remain, Despite Recent Gains

<table>
<thead>
<tr>
<th>Challenge</th>
<th>White</th>
<th>Hispanic</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Generation</td>
<td>56%</td>
<td>78%</td>
</tr>
<tr>
<td>Income Below Poverty Level</td>
<td>29%</td>
<td>62%</td>
</tr>
<tr>
<td>Complete Credentials Within 5 Years</td>
<td>70%</td>
<td>49%</td>
</tr>
</tbody>
</table>
States Begin to Fund Outcomes Rather Than Enrollment

At the same time that student success rates are likely to fall due to a changing demographics, an increasing number of states are tying funding to completion rates. When states do invest new money in higher education, they often tie it to performance metrics rather than headcount. President Obama has proposed a similar approach for federal student aid. It is too soon to know how much these new models will impact university finances, but they will certainly increase pressure on institutions to improve student success.

Retention, not just recruitment, will become critical for maintaining or growing revenues in a zero-sum demographic and funding environment.

State Funding That Remains Will Have More Strings Attached Than Ever
Performance Funding Spreading Across Nation (Again)

States That Have Implemented or Are Planning Performance-Based Funding

BEFORE 2010: Pennsylvania, Indiana, Tennessee, Ohio

2010 TO TODAY: 24 states (and counting) have now approved or are currently planning new funding models
The financial imperative to recruit full-pay and highly talented students has driven a rapid increase in “merit-based” aid, often targeted at privileged families. The percentage of students receiving merit-based aid now exceeds those receiving need-based aid, not only at tuition-dependent privates but also at public universities.

Trapped between declining state support and rising pressure to raise completion rates and student quality, public universities are increasingly recruiting highly qualified (and wealthier) out-of-state and international students. While critics accuse them of abandoning their access mission, the institutions point out that state funds are no longer sufficient to support all qualified in-state students and that out-of-state students can raise standards and subsidize offerings to state residents.

**The Unintended Consequences of the High Tuition, High Aid Model**

Proportion of Students Receiving Need-Based or Merit Aid

- **Public Universities**
  - Need-Based: 13% (1995–96), 16% (2007–08)
  - Merit-Based: 8% (1995–96), 18% (2007–08)

- **Private Universities**
  - Need-Based: 43% (1995–96), 42% (2007–08)
  - Merit-Based: 24% (1995–96), 44% (2007–08)

- More publics moving to high tuition, high aid model
- Perception that out-of-state students are crowding out minorities
- 12+ institutions charging Pell students over $20K
- Net tuition falling despite price increases
The use of financial aid as a recruiting tool threatens to dampen—or even halt—growth in net tuition revenue, a trend already evident at many smaller private colleges. While the public complains of large annual tuition increases, financial aid (particularly merit aid) is increasing even faster at many institutions. As competition intensifies, fewer institutions will be able to continue driving significant annual gains in net tuition revenue from the traditional 18- to 22-year-old demographic.

No Relief in Sight

Net Tuition Revenue Growth Weak as Discount Rates Rise

Net Tuition Revenue per Full-Time, First-Time Freshman at Private Institutions, 2002–2012, in Constant 2012 Dollars (n = 383)
Demographic changes will impact institutions differently, depending on their selectivity. Selective institutions will have to spend more on merit aid, student amenities, and elite faculty to continue to attract a shrinking pool of highly prepared students. But these students tend to complete at very high rates.

On the other end of the spectrum, open-access institutions spend very little to recruit students but will enroll a growing number of less-prepared students. If universities make the investments in remediation, advising, and student services that these students require, costs will increase. At both ends of the spectrum, the combined costs to recruit and retain a student to graduation are likely to go up even as state funding and tuition revenue slow or decline.

**The Rising Costs of Traditional Students**

Enrollment Costs Rising at Both Selective and Non-selective Institutions

**Different Challenges, but Similar Effect on Costs**

- **Open Access**
  - The Completion Challenge
    - Low cost to recruit, high cost to retain
    - Up to 40% of instructional expenses spent on remedial education and students who never graduate
    - Exacerbated by demographic trends that emphasize performance gaps

- **Moderately Selective**
  - Growing costs from both recruitment and retention

- **Highly Selective**
  - The Competition Challenge
    - High cost to recruit, low cost to retain
    - Up to 40% of gross revenue spent on tuition discounting, with growing emphasis on merit aid
    - Exacerbated by growing competition for static pool of high-income students
Reaching the Limits of the Enrollment Management Playbook

Most universities are well aware of these changes, and many are making significant investments in enrollment management to ensure that they can continue to meet their enrollment targets. They are increasing their applicant pool through more mailings or even prepopulated applications, recruiting more widely in high-growth regions, increasing and better targeting their financial aid, and investing more in marketing, branding, and advertising.

While some institutions have developed a competitive advantage based on their ability to formulate and execute enrollment strategies, that advantage will diminish as other institutions adopt the same playbook. As more institutions implement these approaches, yields will continue to fall, attractive zip codes will get increasingly competitive, discount rates will soar, and the return on marketing investment will decline.

Those institutions advantaged by wealth and national or global brands will continue to have their pick of the best (and wealthiest) students. Savvy parents will leverage competing aid offers to drive prices even lower. And the amenities arms race will continue apace—saddling institutions with ever larger costs. An exclusive focus on recruiting recent high school graduates will become unsustainable.
How We’re Responding
Delaying the Demographically Inevitable

- Better articulate the college’s brand
- Better calibrate discounting
- Expand recruitment to far-flung states
- Increase applicant pool

Running to Stay in Place
Deploying the Entire “EM Playbook”

- Flight to Quality
- Price Shopping Across Income Levels
- Higher Academic Support Costs
- Unsustainable Discounting

Ruinous Competition
Weaker Pricing, Escalating Support Costs

- Nationalized Recruiting
- Everyone Trying Everything
- Net Price Transparency

Net Tuition Revenue

Today  Five Years Hence  A Decade and Beyond
The most competitive student segment in higher education remains academically and financially qualified high school students. Recruiting, advising, scheduling, housing, and even pedagogy have been designed primarily around the needs of these students. But while these traditional residential undergraduates will still make up the majority of students at most institutions, it will be impossible to generate the kinds of revenue growth that supported institutional missions over the past 15 years from this population.

Diversifying the student body and expanding access have always been mission imperatives for higher education. Over the next decade they will become financial imperatives as well.

Our research focused on four student segments that have the potential to support sustainable enrollment growth. They share the following characteristics:

- Large student populations that exist in every region
- Strong potential to complete a degree when provided appropriate support structures
- Less competitive recruiting environment than traditional students
- Multiple models for financially sustainable academic programs

Most institutions already serve some or all of these groups to some degree, but they will need to significantly enhance their ability to recruit and graduate one or more of these populations as they find that they cannot meet their enrollment goals with a narrow focus on traditional students.
Seeking Sustainable Frontiers
Diversifying Today to Reach Students of Tomorrow

Sustainable Frontiers
• International Undergraduates
• Community College Transfers
• Adult Degree Completers
• Professional Master’s

Critical Attributes
Fast-Growing
High Net Revenue
Strong Student Success
Low Competition

Running to Stay in Place

Ruinous Competition

Today
Five Years Hence
A Decade and Beyond
Evaluating Potential Growth Segments
Pathways to **Success**

The underserved populations at universities are not new, but they have remained marginalized at many institutions because they have been seen as less well prepared and less likely to succeed. The inherent inertia of universities, and the importance of high test scores and grades to rankings, have made it difficult for some institutions to diversify the types of students they serve.

Successful institutions have found that the different needs of these populations can often be met through “pathways” that provide an alternative route to a degree. Pathways acknowledge that these students start from a different point and need a different set of services and pedagogical approaches to be successful. Rather than redesign the university from scratch, most institutions have added specialized programs to prepare these students for the traditional curriculum.

These pathways have a broad range of benefits: increasing diversity, improving student success, and (in many cases) even generating revenue.

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**A Model for Recruiting and Graduating Nontraditional Students**

- **Traditional Undergrads**
  - High School
  - First Year
  - Second Year
  - Fourth Year
  - Graduation

- **International Undergraduates**
  - ESL Pathway

- **Community College Transfers**
  - Community College

- **Adult Degree Completers**
  - Prior Learning Assessment
  - Competency-Based Learning

**Advantages of Pathways**

- Widen recruiting funnel
- Increase diversity
- Assess readiness
- Improve success rates
- Maintain selectivity
- Generate revenue
The United States has long been a magnet for international students, attracting many of the best students from around the world. For many years, doctoral programs at research universities attracted the majority of international students. More recently, however, undergraduate degree programs and course-based master’s have seen the greatest growth in international enrollment, driven by universities’ need to expand the number of tuition-paying students and by the rise of a prosperous middle class in countries like China. These international undergraduates are not only financially able, they are also highly academically qualified and help to internationalize the campus experience for all students.

Looking for Revenue
Doctoral Share Declines as More Students Pay for Bachelor’s and ESL

Growth Driven by Fee-Paying Undergraduates
*Increase in International Enrollment and Growth Rate by Level, 2006–2011*
As the number of international undergraduates has expanded on many campuses, administrators have come to recognize that international recruiting is relatively easy compared to the challenges of supporting large populations of international students, particularly as institutions draw on student populations with lower levels of ESL ability.

Universities are finding that rapid increases in international demand have swamped those programs most popular with international students, outpaced the ability of campus services to keep up, and frustrated faculty who may need to adjust their teaching and advising approaches for new populations.

**Too Few or Too Many?**

For Most, Expanding Capacity a Greater Challenge Than Recruiting

<table>
<thead>
<tr>
<th>Do we have enough capacity?</th>
<th>Are we ready to serve them?</th>
<th>Is the campus culture ready?</th>
<th>Will they adjust to our culture?</th>
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</thead>
<tbody>
<tr>
<td>Seats in high-demand programs</td>
<td>English language support</td>
<td>Faculty sensitivity training</td>
<td>Academic integrity standards</td>
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<tr>
<td>Classrooms and laboratories</td>
<td>Academic advising</td>
<td>Intercultural staff</td>
<td>“Ghettoization” of international students</td>
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<td>Student residence accommodations</td>
<td>Immigration compliance</td>
<td>Student attitudes</td>
<td>Reluctance to seek counseling</td>
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<td>Career services</td>
<td>Religious tolerance</td>
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Expanding the Market with English Language Pathways

The dramatic growth in international undergraduates masks the fact that U.S. universities have actually concentrated on a relatively small part of the international market—those students who already have strong English language skills.

Historically, many universities screened out international candidates who lacked proficiency in English, but many now recognize that these students may still have strong academic qualifications and can be highly successful with the right preparation. They are also recognizing that high English standards dramatically limit the size of the potential international market. Only about half of the students who take the TOEFL meet the cutoff score for direct admission into a selective institution. Only 18% of Chinese students are prepared for seminar-style classes, according to international recruitment firm Zinch.

English language institutes that provide only language training are common, but some institutions are now developing academic pathways that blend language instruction with study skills and academic coursework designed to prepare students for entry into the second year of a baccalaureate degree program.

### The ESL Opportunity

Traditional Recruitment Efforts Ignore Half the Market

**U.S. Study Not Just for Elites Anymore**  
*Chinese Students Interested in U.S. Study by Proficiency Level*

- **Functional**: 44%  
- **Subfunctional or Poor**: 38%  
- ** Truly Superb**: 3%  
- **Advanced**: 15%

*Students with high ability and financial means but traditionally underserved by U.S. institutions*
Anatomy of an **ESL Pathway**

There are a number of approaches to supporting international students whose English language skills need additional work before they can be successful in a traditional degree program. Pathway arrangements vary widely, from programs run cooperatively with third parties to community college partnerships, but they share several common characteristics:

- Last 1 to 4 terms, depending on beginning level of English competency
- Students are conditionally admitted to the university or admitted to a non-degree program
- Curriculum features advanced ESL, study skills, and academic acculturation taught by TESOL-certified, non-tenured instructors
- Discipline-specific pathways allow students to earn academic credit and avoid losing time-to-degree
- Wraparound support services with significant advisement let students catch up to their direct admit peers quickly

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**Choosing the Right Pathway for You**

**Pathways Return More Revenue with Greater Institutional Oversight**

Considering ESL Pathway ROI and Institutional Investment

**In-House ESL Pathway**
- In-house recruitment, administration, and revenue collection
- Best for institutions with well-developed international support office and well-known academic brand
- Generally leverages existing English language institute
- Promotes cultural unity of pathway students with domestic students

**Vendor-Assisted ESL Pathway**
- Students take a year of ESL while earning credit toward major
- Partner firm manages recruitment and support in exchange for flat fee plus tuition share
- Best for institutions with capacity constraints or limited brand recognition

**Community College Pathway**
- Community colleges recruit students, offer ESL and acculturation support
- Students transfer after receiving associate’s
The Risk of Dependency on China

Growing the number of international students can diversify the campus and generate much-needed revenues, but it also creates significant risk. International students are by definition the most mobile students in the world. They have a broad range of choices, and they are therefore the most potentially volatile student population. Political, regulatory, and economic changes can all significantly impact international student flows almost overnight.

The risk is compounded by the fact that U.S. universities have attracted the large majority of international students from a handful of countries. In recent years, Chinese students accounted for nearly all of the net growth in international enrollment. And yet China’s demographic problems are much more significant than America’s. The Chinese government’s one-child policy, along with increasing affluence, has resulted in a rapid drop in birth rates. The number of Chinese 18- to 22-year-olds will fall by 33%, or 40 million, over the next decade, a loss close to the entire population of California.

Preparing for China’s Baby Bust
Worsening Chinese Demographics Will Create Hunt for New Markets

China Powers Enrollment Growth

International Undergraduates by Origin

40M Drop in Chinese Youth Population

Number of 18- to 22-Year-Olds in China
Closer to home, community college students represent an increasingly important student segment at many colleges and universities. While hardly a new population, institutions that had previously been skeptical of the academic quality of transfer students are taking a closer look.

At many public universities, this is a result of state policies to manage capacity across two-year and four-year institutions. At some privates it is a recognition that community colleges can be a source of students with high potential to succeed. Many even find that transfers require less financial aid than first-time freshmen. Moreover, the data show that students who complete an associate’s degree before transferring have a greater likelihood of completing their baccalaureate degree than the average “native” first year student.

As Good as Your Freshmen
U.S. Population by Education Level

Transfer Students Share Financial Characteristics with Four-Year “Natives”
National Six-Year Graduation Rates by Transfer Status, 2006 Entering Cohort
Credit Transfer and Advising Remain Major Barriers

Though the data is spotty, up to three million students transfer from community colleges to four-year institutions in the United States each year. But only about 30% of community college students who plan to transfer into a baccalaureate program do so. While many community college students are not qualified to transfer or interested doing so, there is evidence that many students who could succeed at a university are frustrated by a range of barriers to transfer.

Many states have implemented common course numbering systems, system-wide articulation agreements, or transfer associate’s degrees. While these can be helpful, students still must wade through a time-consuming, paperwork-laden bureaucracy. Students may not know whether their credits will transfer until after they are admitted. Additionally, many state-based articulation frameworks do not address major credit—even if a student can transfer all community college credits, they may not count toward their major.

Building a Sustainable Pathway for Transfers
Investing in Flexibility, Relationships, and Support Services

- Recruitment at Scale
  - Transfer Admissions Consortium
  - Digital Transfer Pathways
  - Transfer “Express Lanes”

- Building a Long-Term Pipeline
  - Automated Reverse Transfer
  - Automated Articulation Center
  - Curriculum Alignment Forum

- Low-Cost Quick Wins
  - Honors Program Recruitment
  - Non-Linear Advising Guides
  - Advising Presence on Two-Year Campus

Attractiveness to Students

Resource Investment
Enormous Growth Potential Among Degree Completers

Though students over age 25 currently represent only about 33% of all undergraduates, they will generate about half of all growth in baccalaureate enrollment between 2011 and 2021—about 700,000 additional students. And even with these growth rates, there is potential for significantly greater gains. There are 54 million working adults in the United States with some college or an associate’s degree but no baccalaureate degree. Half of them indicate they would like to go back and finish their degree, but currently only 3% do. Furthermore, as national organizations and state governments set aggressive degree attainment goals, they are realizing that those goals are simply unattainable without engaging working adults.

Military and veteran students are a key demographic among adult degree completers. There are approximately one million military students enrolled in the higher education system currently, but the market remains underpenetrated. There are 27 million veterans, reservists, and active duty personnel, but only 5% of enlisted personnel hold a bachelor’s degree or higher. Still, the market is growing quickly, with military enrollments up over 100% since 2009.

The Degree Completion Opportunity

U.S. Population by Education Level

- 54M Adults who have some college or an associate’s degree
- 50% Say they want to go back to school—only 3% do so
- 87.4M High School or less
- 34.2M Some College No Degree
- 19.7M Associate’s Degree
- 40.6M Bachelor’s Degree
- 22.8M Graduate Degree
While adult degree completers have the greatest growth potential among our student segments, they are also in many ways the most difficult to serve. Adult students’ preferences and support needs differ most from those of traditional students because the needs of adult students differ most from traditional 18- to 22-year-old residential undergraduates.

Most adult students have already accumulated a significant number of academic credits as well as a wealth of experience. They do not have the money or the time to repeat credits or take courses in areas they already know. Bringing these students back into a degree program and keeping them in until they graduate depends on being able to grant them credit for previous courses and for learning that happened on the job.

Most of the innovative self-paced and competency-based programs that some universities are now introducing are designed specifically for the needs of working adults—enabling them to make rapid progress toward a degree with the minimum amount of rework.

Credit Where Credit Is Due

Prior Learning Assessment (PLA) Critical for Adult Student Success

Graduation Rate for Adult Students by Prior Learning Status and GPA

Typical first-time freshman graduation rate With PLA 66%
Without PLA 35%

Student’s Entering GPA (From Previous College Work)

Under 1.0 2% 10%
1.0–1.9 3% 11%
2.0–2.9 28% 44%
3.0+ 75%
Master’s Programs Offer the Broadest Revenue Opportunities

Master’s degrees are projected to account for 39% of all new degrees granted during the next decade, and estimates from the Department of Education might actually understate the size of the opportunity, given that more aggressive development of innovative programs is likely to expand the size of the market.

Universities and colleges in every segment (even those classified as baccalaureate colleges) have been growing masters universities as a quick way to boost enrollment and generate revenue. This is also the domain in which for-profit universities and enablement vendors (for-profit companies that partner with nonprofit universities to launch online degree programs) have been most active.

The Professional Master’s Opportunity
Master’s to Drive Greater Share of Enrollment Growth Over Next Decade

Master’s as Share of Total Degree Completions, 2011

Projected Growth by Award Level, 2011–2021
Much of the recent growth in the master’s market has come in professional, rather than academic, programs. Professional schools in business, engineering, and health professions have long offered master’s degrees tailored to the needs of working professionals, while colleges of arts and sciences have traditionally offered master’s degrees closely linked to PhD programs. Now departments are tailoring new offerings to non-academic labor markets rather than simply offering a path to academic careers.

There are a range of reasons for the rise of the professional master’s. An increasing range of industries and occupations now require graduate-level training either because of the need for more sophisticated skills or because of increased labor market competition. Both early-career and mid-career professionals now see value in enhancing their credentials and are willing to invest their time and money to pursue those credentials. At the same time, universities see these programs as a way to generate new revenues which can often be used to subsidize core academic programs.

### A Contrast to Traditional Master’s Programs

<table>
<thead>
<tr>
<th>Traditional Master’s</th>
<th>Professional Master’s</th>
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</thead>
<tbody>
<tr>
<td>Full-time, residential</td>
<td>Part-time, low residence</td>
</tr>
<tr>
<td>Thesis</td>
<td>Project or work experience</td>
</tr>
<tr>
<td>Path to PhD</td>
<td>Path to employment</td>
</tr>
<tr>
<td>Designed around faculty research interests</td>
<td>Designed around employer hiring interests</td>
</tr>
<tr>
<td>Taught exclusively by tenure-stream faculty</td>
<td>Designed around employer hiring interests</td>
</tr>
<tr>
<td>Housed within single department</td>
<td>Cross-disciplinary/ multiple departments</td>
</tr>
<tr>
<td>Financial aid available</td>
<td>Typically self-pay</td>
</tr>
<tr>
<td>Younger, less experienced students</td>
<td>Often older students with work experience</td>
</tr>
</tbody>
</table>
The vast majority of master’s degrees and professional doctorates (over 60%) are granted in just four broad fields—business, education, health care, and law. These fields have historically been the primary drivers of growth in master’s and professional education but all are currently facing enrollment pressures for a variety of reasons—business cycles, regulatory changes, industry restructuring, or (in the case of health care) capacity issues. While these will remain the largest master’s programs on most campuses, smaller niche programs show the greater opportunities for fast growth.

The categories on the chart below (taken from IPEDS CIP classifications) fail to identify the interesting niche programs that are increasingly emerging in areas such as health informatics, cybersecurity, and big data. These new programs often leverage faculty across multiple colleges and repackage many existing courses into innovative new programs that meet the needs of working students.

### Large Fields Still Popular, but Smaller Fields Growing Faster

**Growth in Graduate Degrees Conferred by Discipline, 2006–2011**

- **Health Care:** 41,110
- **Business:** 42,847
- **Education:** 13,888
- **Engineering:** 9,071
- **Public Admin/Social Work:** 10,023
- **Engineering Tech:** 2,410
- **Transportation:** 606
- **Criminal Justice:** 3,352
- **Recreation and Fitness:** 2,618
- **Interdisciplinary Sciences:** 2,618
- **Law:** 3,969

61% Share of growth from four largest fields (dark gray)

Bubble size and label indicates absolute growth in degrees conferred, 2006–2011
Despite National Competition, Local Opportunities Remain

Many universities have launched fully online professional master’s programs to reach a national audience of working professionals who need the flexibility and convenience of online programs. The fact that for profit universities and for-profit companies that support online programs at nonprofit universities have focused on the master’s market indicates the strong potential for profitable enrollment growth.

Skeptics might be concerned about the ability of regional universities to compete with large, well-funded national providers (both nonprofit and for-profit), but the evidence shows that even the online market for master’s degrees is highly local. As many as 70% of online students study at an institution with a location within 100 miles of their home. Regional institutions may actually have advantages over national providers, including better brand recognition, stronger employer relationships, and more opportunities for face-to-face student support.

The online market remains highly fragmented. The University of Phoenix is the largest online provider with over 420,000 degree-seeking students enrolled in 2011 and a marketing budget of over $650 million. Yet the University of Phoenix has less than a 3% share of the total master’s market.
A Highly Fragmented Market
Even the Largest Provider Has a Relatively Small Share

**420K** Total enrollment in degree programs, 2010–2011

**19K** Number of master’s degrees conferred in 2011

**112** Number of campuses across United States

**$650M** Apollo Group, Inc. marketing expenses, FY 2010–2011

University of Phoenix’s Share of Master’s Market by Discipline, 2011

<table>
<thead>
<tr>
<th>Discipline</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Criminal Justice</td>
<td>10.3%</td>
</tr>
<tr>
<td>Psychology</td>
<td>6.0%</td>
</tr>
<tr>
<td>Business</td>
<td>5.0%</td>
</tr>
<tr>
<td>Human Sciences</td>
<td>3.7%</td>
</tr>
<tr>
<td>Health Care</td>
<td>3.0%</td>
</tr>
<tr>
<td>All Master’s Degrees</td>
<td>2.6%</td>
</tr>
<tr>
<td>Education</td>
<td>2.5%</td>
</tr>
<tr>
<td>Computer/IT</td>
<td>0.9%</td>
</tr>
</tbody>
</table>
Reorganizing to Support Sustainable Growth
New Competencies Required to Serve Working Adults

Most universities are highly sophisticated when it comes to serving traditional 18- to 22-year-old students. They know how to market to them, how to design programs that will appeal to them, and how to support them once they are on campus. Working adults, however, have different needs and are often a much more volatile and market-driven population. Successfully recruiting them and serving them well requires a whole new set of competencies that few nonprofit universities currently possess. Everything from program approval processes, to admissions requirements and credit transfer policies, to tech support need to be rethought and optimized to student needs.

New Program Types Require New Capabilities
A Contrast to Traditional Master’s Programs

<table>
<thead>
<tr>
<th>Professional Master’s Students</th>
<th>New Program Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>In fast-changing industries</td>
<td>Faster program approval</td>
</tr>
<tr>
<td>Strongly focused on ROI</td>
<td>Rigorous market research</td>
</tr>
<tr>
<td>Long out of college</td>
<td>More flexible admissions requirements</td>
</tr>
<tr>
<td>Evaluating multiple programs</td>
<td>Student-centric program design</td>
</tr>
<tr>
<td>Shopping online</td>
<td>Online marketing and recruiting</td>
</tr>
<tr>
<td>Working full-time</td>
<td>Flexible delivery modes</td>
</tr>
<tr>
<td>Expect 24/7 support</td>
<td>Working adult support services</td>
</tr>
<tr>
<td>Looking to rise within their organization</td>
<td>Leadership development</td>
</tr>
<tr>
<td>See master’s as route to a specific job</td>
<td>Career placement</td>
</tr>
</tbody>
</table>
The Multimodal Student

As universities expand their ability to serve nontraditional students, they are recognizing that new program modalities and support services are also attractive to their traditional students. Few 18- to 22-year-olds would choose a fully online baccalaureate program over a face-to-face program, but a growing number of them see fully online courses as a critical complement to face-to-face. Multimodal students are breaking down the traditional distinction between face-to-face and online students, taking courses in different modalities and at different locations even within the same term. They are finding not only more flexible schedules but also a range of improvements to student success by combining the best aspects of each modality.

The chart below shows the overlap at the University of Central Florida between main campus students, secondary campus students, regional campus students, and web students. In 2010, 18% of all students were enrolled in both face-to-face and fully online courses, while 1% took face-to-face courses on two different campuses as well as fully online courses.

“Multimodality” at the University of Central Florida
Headcount by Location, Fall 2010

- Main Campus Students: 47,926
- Web Students: 17,172
- Secondary Campus Students: 2,472
- Regional Campus Students: 5,251

60% 18% 4%

1% 1% 3%

1% 2% 1% 1% 1%
A New Post-secondary Ecosystem

While universities will need to reengineer many of their internal processes to serve emerging student populations, they will also need to change their relationships to other institutions. The rise of the “swirling student” has created an environment where students may be enrolled in multiple institutions at the same time. In the worst-case scenario, these students fall through the cracks without proper support from either institution. In the best-case scenario, these students are able to leverage the strengths of multiple institutions and the institutions are better able to balance student demand and the costs of providing specialized services.

As universities are pressured to reduce costs and to be more accountable for student outcomes, these partnerships can be a mechanism to better manage student risks—allowing students without strong academic backgrounds to start at institutions with the services and experience to serve them well while allowing them to demonstrate their ability to succeed. Integrating student success data and advising services will be critical to making these relationships work.

As traditional institutions serve more nontraditional students, they will find themselves interacting more—either as partners or competitors—with institutions that look very different from them. Colleges and universities typically focus on their peers—similar institutions that recruit similar kinds of students. But to recruit these new students they will need to interact with community colleges, for-profit universities, recruiters, low-income high schools, and community organizations.
Learn More

This piece is based on a larger research initiative on enrollment strategy and program design. To learn more, or to bring the research to your campus, please contact your EAB Dedicated Advisor.

More Support from the Education Advisory Board

Insight Centers on eab.com
We’ve organized the best of our 50+ best practice research studies and 2,000+ custom research reports into insight centers—one-stop destinations for our research on key topics of interest to provosts and their teams, from student success and retention to academic planning, globalization, and online strategy. Check them out on eab.com.

Evaluating Vendor Partnerships for Online Growth—Digital Enablement Toolkit
As our members increasingly serve working professional students through online or hybrid instruction, some universities have opted to work with “online enablement” vendors that promise to quickly get programs online or expand existing ones. We will release a toolkit designed to help administrators evaluate these partnerships based on our interviews with dozens of administrators who have been there before. Look forward to an email announcement of the toolkit in Q1 2014.

Student Success Collaborative
Growing from a few early partners to over 80 members over the course of 2013, the Student Success Collaborative leverages the power of predictive analytics and a member-driven approach to product innovation to triage advising needs, assess student progress, and guide intervention. Learn more at eab.com.
Searching for a Sustainable Model

Against a backdrop of declining state support for higher education, intensifying competition for students, and the rise of new “disruptive” technologies and business models, discussions about the future of higher education have become both more urgent and more contentious. This brief, based on conversations with over 150 higher education leaders across North America, analyzes the fundamental forces that will shape higher education over the next decade and highlights the strategies and competencies that colleges and universities will need to be successful.
Future Students, Future Revenues
Thriving in a Decade of Demographic Decline